

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 CEA-02

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SUBJECT: GOVERNMENT ECONOMIC PROGRAM FACES PARLIMENTARY TEST

REF: ROME 9176, 9512

1. INTRODUCTION AND SUMMARY. THE DECREE LAWS IMPLEMENTING THE RUMOR GOVERNMENT'S ECONOMIC STABILIZATION PACKAGE WERE APPROVED BY THE COUNCIL OF MINISTERS ON JULY 6 AND REQUIRE PARLIAMENTARY CONFIRMATION WITHIN 60 DAYS. THESE LAWS ARE TO BE TAKEN UP FOR DISCUSSION IN COMMISSION IN THE CHAMBER OF DEPUTIES TODAY, JULY 16, AND IN THE SENATE TOMORROW. THE PCI AND THE UNIONS HAVE MADE CLEAR THEIR NEGATIVE ATTITUDE TOWARDS THE GOVERNMENT DECREES AND THEIR DETERMINATION TO FORCE THEIR SUBSTANTIAL MODIFICATION. THE STAGE IS SET FOR A LEGISLATIVE TEST THAT WILL STRAIN THE CENTER-LEFT COALITION AT A TIME WHEN THE CHRISTIAN DEMOCRATS ARE PLAGUED WITH INTERNAL DISPUTES AND THE SOCIALISTS ARE TORN BETWEEN THEIR DETERMINATION TO KEEP IN STEP WITH THE UNIONS AND THEIR DESIRE NOT TO FRACTURE THE GOVERNMENT COALITION. END INTRODUCTION AND SUMMARY.

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2. THE PCI HAS MADE CLEAR ITS INTENTION TO PRESS FOR SUBSTANTIAL

CHANGES IN THE GOVERNMENT'S ECONOMIC PROGRAM. PREDICTABLY, THE COMMON DENOMINATOR OF THE AMENDMENTS SUGGESTED BY THE PCI IS A "SOAK THE RICH, SPARE THE POOR" APPROACH WHICH IS CERTAIN TO APPEAL TO THE UNIONS AND EXERT CONSIDERABLE ATTRACTION OF THE PSI AND DC LEFT. EMBASSY SOURCES PREDICT THAT THE GOVERNMENT PARTIES WILL BE FORCED TO ACCEPT SOME OF THE PCI PROPOSALS AND THAT A COMPROMISE CAN BE REACHED TO AVOID A CRISIS. NEVERTHELESS, A CRUNCH COULD COME IF A POINT IS REACHED--AND THIS COULD BE REACHED QUICKLY--WHERE THE CUMULATIVE EFFECT OF THE ACCEPTANCE OF PCI AMENDMENTS WOULD SUBSTANTIALLY CUT INTO

THE TOTAL TAX BITE WHICH THE DC, REPUBLICANS AND SOCIAL DEMOCRATS HAVE DEFENDED AS ESSENTIAL TO ECONOMIC STABILIZATION AND THE GRADUAL RELAXATION OF CREDIT RESTRICTIONS DEMANDED BY THE LEFT.

3. THE UNION DECISION ON WHETHER TO CALL A GENERAL STRIKE TO PROTEST THE GOVERNMENT'S ECONOMIC MEASURES AND ON WHAT FORM SUCH A STRIKE MIGHT TAKE IS EXPECTED TO BE MADE AT A JULY 16-17 MEETING OF THE CISL-CGIL-UIL (CCU) DIRECTORATE.

4. FURTHER COMPLICATING THE SITUATION OF THE RUMOR GOVERNMENT IS THE CONFUSED SITUATION IN THE DC PARTY, WHERE LEFT WIG RANCOR AGAINST FANFANI (ROME 9512) AND DISCONTENT AMONG YOUNGER DC PARLIAMENTARIANS THREATEN TO MAKE THE JULY 18 DC NATIONAL COUNCIL MEETING A LACERATING AFFAIR. MORO AND FANFANI, SUPPORTED BY THE PARTY CENTER-RIGHT FACTIONS,

ARE REPORTEDLY TRYING TO PUT TOGETHER AN ACCORD TO AVOID A FORMAL LEFT-RIGHT DIVISION WITHIN THE PARTY. IF THEY FAIL AND IF THE PARTY LEFT IS PLACED IN A MINORITY OPPOSITION STANCE, THE PSI WOULD CERTAINLY FEEL A LESSER COMMITMENT TO THE GOVERNMENT COALITION.

5. COMMENT: MOST EMBASSY SOURCES ARE OPTIMISTIC THAT A COMPROMISE WILL BE REACHED AND A SUMMER CRISIS AVOIDED, ALTHOUGH THE GOVERNMENT STILL FACES A NUMBER OF DIFFICULT HURDLES FOR THE INCREASINGLY FRAGILE CENTER-LEFT COALITION. ON BALANCE, WE BELIEVE THERE ARE REASONABLY GOOD CHANCES FOR PASSAGE OF AN ACCEPTABLE VERSION OF THE GOVERNMENT'S ECONOMIC STABILIZATION PROGRAM. VOLPE

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